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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JULY 16, 1998

APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY CASE NO. PUE980333

For approval of a special rate and
contract pursuant to § 56-235.2 of
the Code of Virginia

ORDER FOR NOTICE AND HEARING

On April 13, 1998, Virginia Electric and Power Company ("Virginia Power" or "Company") and Chaparral (Virginia) Inc. ("Chaparral")(collectively, "parties") entered into an Agreement whereby Virginia Power would provide electric service to Chaparral at the steel recycling facility the latter intends to construct in Dinwiddie County, Virginia. The Agreement provides Chaparral with a special rate for such service, pursuant to § 56-235.2 of the Code of Virginia.

On June 22, 1998, Virginia Power filed public and nonpublic versions of an application for approval of the special rate in the Agreement with Chaparral together with public and nonpublic versions of the Agreement. This application was filed pursuant to § 56-235.2 of the Code and the Commission's Guidelines for Filing an Application to Provide Electric and Gas Service under

a Special Rate, Contract, or Incentive, 20 VAC 5-310-10, adopted in Case No. PUE970695.

This is the first application submitted for Commission review of a special rate or contract following the 1996 amendment to the Code of Virginia that permitted utilities to make such offers to customers. Virginia Power has requested expedited treatment of its application and the Commission will attempt to accommodate the parties to the Agreement by so doing.¹ Virginia Power is admonished to comply fully with the Commission Staff's investigation of the application and to respond fully and timely to any discovery requests submitted to them in order to expedite review of the application.

Under the terms of its Agreement, Virginia Power proposes to provide all of the electric service Chaparral's facility will require. The Company describes the structure of the rate to be paid by Chaparral as including a monthly administrative fee; a charge per kW of Billing Demand, per month, a "Generation Capacity Adder" ("GCA") rate per kWh that increases annually to the levels specified in the Agreement, an energy charge based upon system lambda (marginal) hourly costs, plus a per kWh margin, and a charge based on the gross receipts taxes

¹ The Commission notes that the parties were obliged to amend the Agreement on June 11, 1998, because the Agreement required Virginia Power to file the Agreement and supporting application with the Commission for review within 60 days of its effective date, April 13. The amendment extended the date for filing the application to June 22, 1998. Another term of the Agreement permits either party to cancel the Agreement if the Commission has not ruled on the application within 90 days of filing. The Commission assumes that this term is similarly subject to mutual amendment by the parties.

associated with the revenues resulting from the Agreement.

Virginia Power maintains that but for the Agreement, the firm rate schedule GS-4 in combination with Curtailable-Schedule C5, and possibly Schedule 10, would have been applicable to Chaparral, but at a cost that would have nullified Chaparral's decision to locate in Virginia.

Virginia Power alleges that the special rate provided for in the Agreement will not unreasonably prejudice or disadvantage any customer or class of customers. The Company maintains that it has no plans to construct generation facilities to meet the needs of Chaparral. It states that Chaparral will be a large consumer of interruptible on- and off-peak energy and each kWh will include a margin which exceeds the marginal costs to Virginia Power to produce energy. In addition, Chaparral will take power at transmission voltage and will be fully interruptible. With hourly energy charges that reflect the estimated variable hourly costs of production for the next day, the Company anticipates that the impact of the Agreement on other customers will be positive, as Virginia Power plans to "allocate the resulting margins to all jurisdictions and to the Virginia jurisdictional customer classes."

The Company has requested that its unredacted application and Agreement be afforded confidential treatment and has provided redacted copies of these documents for general review by the public. Virginia Power has requested an expedited

procedural schedule in order to permit Chaparral to commence commercial operation of its facility on or about July 1, 1999.

NOW, UPON consideration of the application and the applicable statute and guidelines, the Commission finds that the Company should provide notice to affected parties of its application; members of the Commission's Staff should investigate said application and present their findings in testimony at the public hearing scheduled herein; and a public hearing should be convened to receive evidence relevant to the Company's application.

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to Rule 7:1 of the Commission's Rules of Practice and Procedure ("Rules"), a Hearing Examiner is appointed to conduct all further proceedings in this matter.

(2) A public hearing before a Hearing Examiner is scheduled for Thursday, September 17, 1998, at 10:00 a.m., in the Commission's second floor courtroom located in the Tyler Building, 1300 East Main Street, Richmond, Virginia, for the purpose of receiving evidence relevant to the Company's application.

(3) On or before July 22, 1998, Virginia Power shall file an original and twenty (20) copies of any additional direct testimony it intends to present in support of the captioned application during the public hearing to be convened on September 17, 1998.

(4) Copies of the public version of the application, Agreement, and accompanying documents shall be made available for public inspection in the Commission's Document Control Center located on the first floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., or can be ordered from Virginia Power's counsel Richard D. Gary, Esquire, and Gregory M. Romano, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074. Access to documents labeled confidential or proprietary shall be governed by the terms of the Protective Order entered herein.

(5) On or before August 11, 1998, Virginia Power shall complete publication of the following notice to be published as display advertising (not classified), once a week for two consecutive weeks in newspapers of general circulation throughout the Commonwealth:

NOTICE TO THE PUBLIC OF AN APPLICATION BY
VIRGINIA ELECTRIC AND POWER COMPANY FOR
APPROVAL OF A SPECIAL RATE AND CONTRACT
PURSUANT TO § 56-235.2 OF THE CODE OF
VIRGINIA - CASE NO. PUE980333

On June 22, 1998, Virginia Electric and Power Company ("Virginia Power" or "the Company") filed with the State Corporation Commission ("Commission") public and nonpublic versions of an application for approval of a special rate offered in an Agreement with Chaparral (Virginia), Inc. ("Chaparral"). The Company also filed public and nonpublic versions of an Agreement between Virginia Power and Chaparral.

In its application, Virginia Power states that Chaparral plans to construct a steel recycling facility in Dinwiddie County within Virginia Power's service area which will require substantial quantities of non-firm electricity. Under the terms of its Agreement, Virginia Power proposes to provide all of the electric service Chaparral's facility will require for a term of four years. Virginia Power alleges that but for the Agreement, Virginia Power's firm rate schedule GS-4 in combination with Curtailable Schedule CS, and possibly Schedule 10, would have been applicable to Chaparral, but at a cost that would have nullified Chaparral's decision to locate in Virginia. Virginia Power alleges that the special rate provided for in the Agreement will not unreasonably prejudice or disadvantage any customer or class of customers. The details of these and other aspects of the application are set out in the Company's application, Agreement, and supporting documents. Interested persons are encouraged to review Virginia Power's application and supporting documents for the details.

A public hearing on the Company's application shall be convened before a Hearing Examiner on September 17, 1998, at 10:00 a.m., in the Commission's second floor courtroom located in the Tyler Building, 1300 East Main Street, Richmond, Virginia, to hear evidence relevant to the Company's application.

Copies of redacted versions of Virginia Power's application and supporting documents are available for public inspection in the Commission's Document Control Center located on the first floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday, or can be ordered from Virginia Power's attorneys, Richard D. Gary, Esquire, and Gregory M. Romano, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074.

Any person desiring to comment in writing on Virginia Power's application may do so by directing such comments, on or before August 26, 1998, to the Clerk of the Commission at the address set out below. Any person desiring to make a statement at the public hearing concerning Virginia Power's application need only appear in the Commission's second floor courtroom at 9:45 a.m. on the day of the hearing and identify himself or herself as a public witness to the Commission's Bailiff.

Any person who expects to submit evidence, cross-examine witnesses, or otherwise participate in the proceedings as a Protestant pursuant to Commission Rule 4:6 of the Commission's Rules of Practice and Procedure should promptly obtain a copy of the Order for Notice and Hearing and a copy of the Protective Order entered herein from the Clerk of the Commission for complete details of the procedural schedule and instructions on participation in this case.

Individuals with disabilities who require an accommodation to participate in the hearing should contact the Commission at least seven (7) days before the scheduled hearing date at 1-800-552-7945 (voice) or 1-804-371-9206 (TDD).

All written communications to the Commission concerning Virginia Power's application should be directed to William J. Bridge, Clerk of the State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, and must refer to Case No. PUE980333.

VIRGINIA ELECTRIC AND POWER COMPANY

(6) On or before July 29, 1998, Virginia Power shall serve a copy of this Order upon the chairman of the board of supervisors of Dinwiddie County. Service shall be made by

first-class mail or hand-delivery to the customary place of business or residence of the person served.

(7) On or before July 29, 1998, Virginia Power shall serve a copy of this Order upon the Company's customers served under Virginia Power Rate Schedule GS-4, Curtailable Schedule CS, and Schedule 10 at the customary place of business or residence of the person served. Service shall be made by first-class mail or hand-delivery.

(8) At the commencement of the hearing scheduled herein, the Company shall provide to the Commission proof of the notice and service required by ordering paragraphs (5), (6), and (7) herein.

(9) The Commission's Staff shall investigate the reasonableness of the application and present its findings at the September 17, 1998 public hearing.

(10) On or before August 21, 1996, any person desiring to participate as a Protestant, as defined in Rule 4:6, shall file an original and twenty (20) copies of a Notice of Protest, as provided in Rule 5:16(a), and shall serve a copy of the same on Virginia Power's counsel, Richard D. Gary, Esquire, and Gregory M. Romano, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074.

(11) Within five (5) days of the receipt of any Notice of Protest, Virginia Power shall serve upon each Protestant a copy of all unredacted materials now or hereafter filed with the

Commission available for public review. Upon the execution by a Protestant of the Agreement to Adhere to the Protective Order ("agreement"), approved herein by separate order, Virginia Power shall likewise serve documents filed with the Commission labeled confidential or proprietary upon any Protestant executing said agreement.

(12) Any person desiring to comment in writing on Virginia Power's application may do so by directing such comments, on or before August 26, 1998, to the Clerk of the Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23219. Such comments must refer to Case No. PUE980333. Any person desiring to make a statement at the public hearing concerning the application need only appear in the Commission's second floor courtroom at 9:45 a.m. on the day of the hearing and identify himself or herself to the Bailiff as a public witness.

(13) Any person who expects to submit evidence, cross-examine witnesses, or otherwise participate in the proceeding as a Protestant, pursuant to Rule 4:6, shall file on or before August 28, 1998, an original and twenty (20) copies of a Protest with the Clerk of the State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, referring to Case No. PUE980333, and shall on the same day mail a copy to Virginia Power's counsel at the address set forth above and to any other Protestants. The Protest shall set forth

(i) a precise statement of the interest of the Protestant in the proceeding; (ii) a full and clear statement of the facts which the Protestant is prepared to prove by competent evidence; and (iii) a statement of the specific relief sought and the legal basis therefor. Any corporate entity that wishes to submit evidence, cross-examine witnesses, or otherwise participate as a Protestant must be represented by legal counsel in accordance with the requirements of Rule 4:8.

(14) On or before August 28, 1998, each Protestant shall file with the Clerk of the Commission an original and twenty (20) copies of the prepared testimony and exhibits the Protestant intends to present at the September 17, 1998 hearing and shall, on or before August 28, 1998, mail a copy of the same to the Company's counsel at the address set forth above, and to any other Protestants.

(15) On or before September 4, 1998, the Commission Staff shall file with the Clerk of the Commission an original and twenty (20) copies of the prepared testimony and exhibits Staff intends to present at the public hearing and shall mail a copy of same to the Company's counsel at the address set forth above and to each Protestant.

(16) On or before September 11, 1998, the Company shall file with the Clerk of the Commission an original and twenty (20) copies of all testimony it expects to introduce in rebuttal to all of the direct prefiled testimony and exhibits of Staff

and the Protestants. A copy of the prefiled rebuttal evidence shall be served upon the Staff and all parties to the proceeding on or before September 11, 1998.

(17) The Company and Protestants shall respond to written interrogatories within five (5) calendar days after the receipt of the same. Protestants shall provide to the Company, other Protestants, and Staff any workpapers or documents used in preparation of their prefiled testimony, promptly upon request. Except as so modified, discovery shall be in accordance with Part VI of the Rules.